

Service Date: May 30, 1989

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)
MONTANA-DAKOTA UTILITIES COMPANY, a) UTILITY DIVISION
Division of MDU Resources Group,)
Inc., for Authority to Implement the) DOCKET NO. 89.5.10
Gas Cost Tracking Procedure to Estab-)
lish Decreased Rates for Gas Service.) INTERIM ORDER NO. 5412
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INTERIM ORDER

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FINDINGS OF FACT

1. On May 1, 1989, the Montana-Dakota Utilities Company (Company or MDU) filed with the Montana Public Service Commission (PSC or Commission) its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheet 88. The filing was given the Docket No. 89.5.10. The Company requested that the adjustment be implemented effective June 1, 1989. (Application, p. 3)

2. In its application, MDU states that, since the Commission established MDU's present gas cost tracking adjustment level, there have been three actions by Williston Basin Interstate Pipeline Company (WBIP) that have an impact on MDU's cost of gas at the town

border station. This filing reflects the net effect of these actions. The specific actions taken by WBIP are as follows:

- a.) On November 30, 1988, WBIP filed, in Federal Energy Regulatory Commission (FERC) Docket No. RP89-34-000, a general rate case pursuant to Section 4 of the Natural Gas Act and Part 154 of the FERC Regulations. On January 30, 1989, WBIP filed its compliance tariff sheets pursuant to the FERC's "Order Accepting and Suspending Tariff Sheets Subject to Refund and Conditions, Rejecting Alternate Tariff Sheets and Establishing Hearing" issued December 30, 1988. These compliance rates will be effective June 1, 1989, subject to refund and FERC authorization. (Application, p. 2)
- b.) On December 30, 1988, WBIP filed, in FERC Docket No. TQ89-2-49, its quarterly PGA to be effective February 1, 1989. That filing reflects a 7.687 cent per dkt increase from the rates established in FERC Docket No. TQ89-1-49. (Application, p. 2)
- c. On March 31, 1989, WBIP filed, in FERC Docket No. TQ89-3-49, its quarterly PGA to be effective May 1, 1989. That filing reflects a 23.367 cent per dkt increase from the rates established in Docket No. TQ89-2-49. (Application, p. 3)

3. MDU states in its application that all of the above described changes are incorporated in the current filing. MDU, therefore, requests that the Commission allow the pass-through of this tracking change which reflects the net effect of the above described changes under the terms of MDU's Rate 88. (Application, p. 3)

4. The tracking procedure provides for adjusted rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Adjustment amortized over a projected six-month sales period.

5. MDU proposes net increases over the current tracking adjustment in the amounts of 29.1 cents per dkt for residential and commercial customers and 51.7 cents per dkt for industrial customers, or approximately \$819,000 during the proposed effective period until November 30, 1989. These proposed increases are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	\$0.392	\$0.517
Unreflected Gas Cost Adjustment	<u>(0.123)</u>	<u>0.000</u>
Total Tracking Adjustment	\$0.269	\$0.517
Less: Total Tracking Adjustment - Current	<u>(0.022)</u>	<u>0.000</u>
Net Increase (Decrease) in Current Rates	\$0.291	\$0.517
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6. On May 22, 1989, MDU filed with the Commission a revised Gas Cost Tracking Adjustment change pursuant to the terms of its Rate 88. This revised filing reflects the fact that on May 1, 1989, WBIP filed, in FERC Docket No. TQ89-4-49, an Out-of-Cycle PGA

proposed to be effective June 1, 1989. WBIP apparently states that the gas commodity charge portion of its rates will decrease by 83.706 cents per dkt as a result of that filing. (Revised Application, p. 2)

7. In its filing, WBIP apparently also states that it has reflected a change in the treatment of company-owned production which lowers its nongas commodity charge by 11.686 cents per dkt.

Such change is a modification of WBIP's compliance rates in FERC Docket No. RP89-34 filed on January 30, 1989, and is proposed to be made effective concurrently with the effectiveness of rates in FERC Docket No. RP89-34 on June 1, 1989. (Revised Application, p. 2)

8. The net impact of WBIP's Out-of-Cycle PGA filing will apparently be a reduction to MDU of 95.392 cents per dkt from the WBIP rates reflected in MDU's filing with the Commission on May 1, 1989, in Docket No. 89.5.10.

9. The net effect of this revised filing, calculated pursuant to the terms of Rate 88, on the rates proposed in the Company's May 1, 1989, filing in Docket No. 89.5.10 is a reduction of 78.3 cents per dkt for residential and general service customers and a reduction of 96.6 cents per dkt for industrial customers. (Revised Application, p. 3)

10. The net effect of this revised filing on rates currently in effect (since the rate changes originally proposed in Docket No. 89.5.10 have never been approved or implemented before this Interim Order) is a reduction of 49.2 cents per dkt for residential and general service customers and a reduction of 44.9 cents per dkt for industrial customers, or approximately \$1,153,000 during the proposed effective period until November 30, 1989 (Revised Application, p. 3). These rate reductions are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	(\$0.391)	(\$0.449)
Unreflected Gas Cost Adjustment	<u>(0.123)</u>	<u>0.000</u>
Total Tracking Adjustment	(\$0.514)	(\$0.449)
Less: Total Tracking Adjustment - Current	<u>(0.022)</u>	<u>0.000</u>
Net Increase (Decrease) in Current Rates	(\$0.492)	(\$0.449)
	=====	=====

11. In its revised filing, MDU expressed concern that much of the WBIP decrease may be only temporary and that MDU will be faced with increases late this fall in its gas tracker filing to be effective December 1, 1989, that will largely offset the decrease proposed by WBIP. MDU says that, of the factors giving rise to the 95.392 cents per dkt decrease proposed by WBIP in FERC Docket No. TQ89-4-49, the decrease amount attributable to storage pricing is

56.275 cents per dkt. MDU says that the decrease related to storage pricing will not have a continuing effect on WBIP's gas costs and will no longer be a relevant factor in WBIP's PGA filing to be effective in November of 1989. MDU says that it is also not aware of any factors that would offset the estimated 56.275 cents per dkt increase (related to storage pricing) in WBIP's rates effective November 1, 1989. (Revised Application, p. 3)

12. MDU says, however, that there is an offsetting factor that will tend to mitigate the anticipated WBIP increase in gas costs on November 1, 1989. Specifically, MDU has executed a contract with an alternate supplier for purchasing up to 15% of its annual requirements to be effective November 1, 1989. The contract price of this gas, along with the additional conversion of sales demand to transportation demand, will produce lower gas costs for MDU. However, MDU says that these lower costs will not offset the expected increase in WBIP's rates due to the storage pricing factor. (Revised Application, p. 3)

13. MDU calculates that the estimated change in rates to be effective December 1, 1989, incorporating all the factors discussed above, would be a net increase of 32.0 cents per dkt for residential and general service customers and a net increase of 56.9 cents per dkt for industrial customers, effective at the

beginning of the winter heating season. (Revised Application, p. 4)

14. MDU says that, in the interest of rate stability, it is proposing an alternate calculation for the Commission's consideration. The alternate calculation for residential and general service customers proposes that the current gas costs anticipated to be in place for the winter heating season be authorized at this time. This proposal would mean that for the months of June through October, MDU would overcollect actual gas costs from its customers. Under the deferred accounting procedure in Rate 88, MDU will defer such difference which, at December 1, 1989, is estimated to offset an expected increase in the unreflected gas cost adjustment from the June 1, 1989, negative level. Thus, the overcollection for the months of June through October will be preserved to be passed back with interest to customers during the next winter heating season, which will provide a means of achieving rate stability through a lower unreflected gas cost adjustment in December. Under the alternate proposal for residential and general service customers, MDU estimates that the adjustment required for the heating season to be effective December 1, 1989, would be no change in the current gas cost adjustment or the unreflected gas cost adjustment. (Revised Application, p. 4)

15. For industrial customers, MDU proposes no rate change at this time. MDU says that this will result in a modest increase in December which would be partially offset by a negative balance in the unreflected gas cost account at that time. MDU also says that this proposal will have minimal impact on MDU and its industrial customers since most industrial customers are currently taking transportation service. (Revised Application, p. 4)

16. MDU says that the alternate calculation reflects a decrease of 29.5 cents per dkt for residential and general service customers and no change for industrial customers from current rate levels, or approximately \$691,000 during the proposed effective period until November 30, 1989 (Revised Application, p. 4). These proposed decreases are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	(\$0.194)	\$0.000
Unreflected Gas Cost Adjustment	<u>(0.123)</u>	<u>0.000</u>
Total Tracking Adjustment	(\$0.317)	\$0.000
Less: Total Tracking Adjustment - Current	<u>(0.022)</u>	<u>0.000</u>
Net Increase (Decrease) in Current Rates	(\$0.295)	\$0.000
	=====	=====

17. MDU requests that the Commission allow the pass-through of the alternate proposal effective June 1, 1989, subject to FERC

authorization of WBIP's proposed rate changes or such other date as may be specified by the FERC for WBIP's proposed rate changes.

(Revised Application, p. 5)

18. MDU proposes in its original filing that the industrial unreflected gas cost adjustment should be zero even though there is a negative balance in the unreflected gas cost account for such customers at March 31, 1989. Given the extreme uncertainty and volatility of industrial sales, MDU proposes to refund the balance directly to the applicable customers. MDU claims that this procedure has been allowed on an interim basis in a prior proceeding. MDU will provide a report to the Commission detailing such refunds. (Application, p. 3)

19. In its original filing, MDU says that a new industry standard has recently been developed by the American Gas Association (AGA) regarding the correct spelling and abbreviation of "decatherm (dk)." MDU has adopted this standard in its filing and has noted the change in its proposed tariffs. (Application, p. 4)

20. MDU requests that this filing be accepted as being in full compliance with the filing requirements of the Commission. At March 31, 1989, MDU had 60,926 customers in Montana whose cost of service would be affected by this adjustment. (Application, p. 4)

21. MDU also requested in this filing that the Commission expressly waive the information requirements of ARM 38.5.101 through 38.5.180 inclusive, and grant any additional waivers or approvals deemed necessary to allow the timely implementation of the rates applied for in this filing.

Commission Analysis

22. Although MDU did not request interim relief in this Docket, the Commission believes that this Interim Order is the proper approach in processing this filing to allow for the requested rate changes to go into effect on a timely basis, while also allowing full examination of the case by all interested parties through a discovery and hearing procedure, if such is determined appropriate. A Final Order in this Docket, therefore, will reflect the Commission's analysis of the record in this case and any actions taken by the FERC that would affect the rates approved in this Interim Order.

23. Based on the above discussion, the Commission finds that approval of MDU's requested "alternate" rate changes as proposed in its revised filing in Docket No. 89.5.10 is proper in this Interim Order to be effective on a services rendered basis June 1, 1989, subject to the FERC's authorization of WBIP's proposed rate changes or such other date as may be specified by the FERC for WBIP's

proposed rate changes. The Commission believes that, for interim purposes, the Company's alternate proposal seems to serve the interests of rate stability, and the interest provisions for the probable overcollection serve to protect the ratepayers. Also, the summer heating/cooling season should result in a minimal effect on ratepayers in the adoption of this alternate proposal. The Commission notes that the overcollection must be preserved at MDU's last granted return on equity level.

24. Concerning MDU's proposal to directly refund industrial customers, the Commission finds that, in consistency with Finding of Fact No. 19 in Interim Order No. 5280a of Docket Nos. 88.2.4 and 88.7.33, MDU must set aside that refund money, accruing interest at the Company's approved return on equity, until this matter is resolved in the Final Order of this proceeding.

25. Concerning MDU's proposal to use the AGA's new spelling of "decatherm" and its abbreviation "dk," the Commission will allow those changes to be reflected in MDU's proposed tariffs on an interim basis, but the Commission withholds judgment on this matter until the Final Order.

26. During the analysis of this filing, the Commission noticed that MDU has eliminated the PSC Tax from its calculation of the gas tracker adjustment. The presumption is that MDU has done this as a result of the Company's interpretation of Finding of Fact

No. 22 in Interim Order No. 5399 of Docket No. 88.11.53, MDU's current general gas rate case. For interim purposes, MDU's handling of this matter in this gas tracking proceeding will not be addressed, and the Commission will determine the appropriateness of this new approach in the calculation of the gas tracker adjustment in the Final Order of this proceeding.

27. MDU's filing contemplates an effective date of June 1, 1989, for the proposed rate decreases, and the Commission agrees with that proposed effective date on a services rendered basis, but on an interim basis as discussed above.

28. In granting this interim approval, the Commission stresses that the calculations and methodologies approved in this Interim Order will be closely scrutinized and, depending on the record in this proceeding, may be modified or disallowed in the Final Order.

29. Concerning a hearing in this proceeding, the Commission will soon issue a Notice of Opportunity for Public Hearing to determine the necessity of setting a hearing date.

30. The Commission finds MDU's application to be a complete filing and defers its decision until the Final Order in this proceeding concerning MDU's request for a blanket waiver of the Commission's rules, regulations, etc.

31. The criteria by which the Commission may determine an appropriate interim adjustment in a tracking procedure are found in past Commission gas tracking orders and in the Commission's rules regarding interim relief.

32. Past Commission orders have established the following criteria to be met in the MDU tracking procedure:

- a.) Tracking increases are to be based on historic costs and volumes (Finding of Fact No. 6, Order No. 4476);
- b.) Interest is not to be imputed on the deferred gas cost balance (Finding of Fact No. 25, Order No. 4476a);
- c.) The appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case; furthermore, that mix should apply to both the current and unreflected portions of a tracking procedure (Finding of Fact No. 5, Order No. 4742a); and
- d.) The Company should not annualize for new sources of gas not having an actual production history within the test year (Finding of Fact No. 6, Order No. 4742a).

33. The Commission's rules regarding interim relief are contemplated to provide relief on a "make-whole" basis and set forth the guidelines by which the Commission staff is to develop an appropriate level of interim relief. Among other things, the

guidelines provide for normalization and annualization of test year booked net income and test year average rate base, utilizing the rate of return authorized in the Commission's most recent decision regarding the subject utility.

34. A cursory examination of the Company's application and accompanying exhibits in this proceeding indicates that the criteria enumerated in Finding of Fact No. 32 have been met. Furthermore, the tracking adjustment represents nothing more than normalization and annualization of test year booked net income, and, hence, constitutes an adjustment contemplated in the Interim policy rules. Consequently, the Commission finds the Company's request for relief in this Docket to be proper in this Interim Order.

35. However, the granting of this interim relief should in no way be misinterpreted to mean that any issue in this case has been decided before all the evidence has been presented and heard during the course of these proceedings.

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, provides natural gas service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana rates and operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, that the Commission may, in its discretion, temporarily approve rate changes pending a hearing or final decision.

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to MDU. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Interim Order are found to be unjustified in the Final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Montana-Dakota Utilities Company, is hereby granted interim relief in the amount of 29.5 cents per dkt reduction for all residential and commercial customers and no change for industrial customers.

2. Such relief is to become effective for services rendered on and after June 1, 1989, subject to the FERC's authorization of WBIP's proposed rate changes or such other date as may be specified by the FERC for WBIP's proposed rate changes.

3. Applicant must file its new rates in compliance with the Findings of Fact in this Interim Order and must abide especially by the provisions of Finding of Fact Nos. 22-27 in this Interim Order.

4. Interim revenues granted herein are subject to rebate should the Final Order in this docket determine that a lower revenue level is warranted. Such a rebate would include interest at the rate of the Applicant's last granted return on common equity.

5. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

6. The Commission accepts, for interim purposes, MDU's request that this is a complete filing and is in full compliance with the filing requirements of the Commission, and the Commission reserves final ruling on this request until a Final Order is issued.

DONE IN OPEN SESSION at Helena, Montana, this 30th day of May, 1989, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Acting Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.